

HARLAN COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2013

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HARLAN COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
Al Hazelton	President (7/1/12-9/10/12)	2013
Bruce Goeser	President (9/10/12-6/30/13)	2015
Bruce Goeser	Vice President (7/1/12-9/10/12)	2015
Kathy Mahlberg	Vice President (9/10/12-6/30/13)	2015
Jay Christensen	Board Member (7/1/12-7/16/13)	2013
Amy Rueschenberg	Board Member (7/16/12-6/30/13)	2013
Al Hazelton	Board Member (9/10/12-6/30/13)	2013
Lonnie Muxfeldt	Board Member	2013
Tammy Schwartz	Board Member	2013
Joni Larsen	Board Member	2015
Kathy Mahlberg	Board Member (7/1/12-9/10/12)	2015
<u>School Officials</u>		
Justin Wagner	Superintendent	2013
Terri Cox	Director of Personnel/Board Secretary	Indefinite
John Helling	District Treasurer	Indefinite
Brian Gubbels	Director of Finance	Indefinite
Richard Schenck	Attorney	Indefinite

HARLAN COMMUNITY SCHOOL DISTRICT

December 5, 2013

INDEPENDENT AUDITORS' REPORT

The Board of Education
Harlan Community School District
Harlan, IA 51537

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Harlan Community School District, Harlan Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Continued...

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December 5, 2013
Harlan Community School District
Independent Auditors' Report

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Harlan Community School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 8 through 17 and 45 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlan Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eight years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schroer & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Harlan Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2013 Financial Highlights

- General Fund revenues decreased \$1,423,481 from \$15,901,433 in fiscal 2012 to \$14,477,952 in fiscal 2013, while General Fund expenditures increased \$462,964 from \$14,451,571 in fiscal 2012 to \$14,914,535 in fiscal 2013. The net decrease in revenues and increase in expenditures resulted in an decrease in the District's General Fund balance from \$5,123,644 in fiscal 2012 to \$4,687,061 in fiscal 2013 which is a 8.5 percent decrease from the prior year.
- The decrease in General Fund revenues was attributable to decreases in property tax revenues, state aid revenue, and open enrollment revenue. The increase in expenditures was due primarily to wages and employee benefits.
- The District's General Fund financial transactions resulted in no change to the District's solvency ratio as it was 29.1% for 2012 and 29.1% for 2013. The District's solvency level indicates the District is able to meet unforeseen financing requirements and presents a sound risk for the timely repayment of short-term obligations. Iowa Association of School Boards, and Iowa Association of School Business Officials recognize a solvency ratio between 8-12% as financially acceptable. The formula for computing solvency ratio was changed with the implementation of the GASB 54 Fund Balance Reporting Requirements. The district lowered its general fund levy for 2014 which should reduce its solvency ratio and unspent budget authority.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Harlan Community School District as a whole and present an overall view of the District's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Harlan Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Harlan

Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retirees Health Plan.
- Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

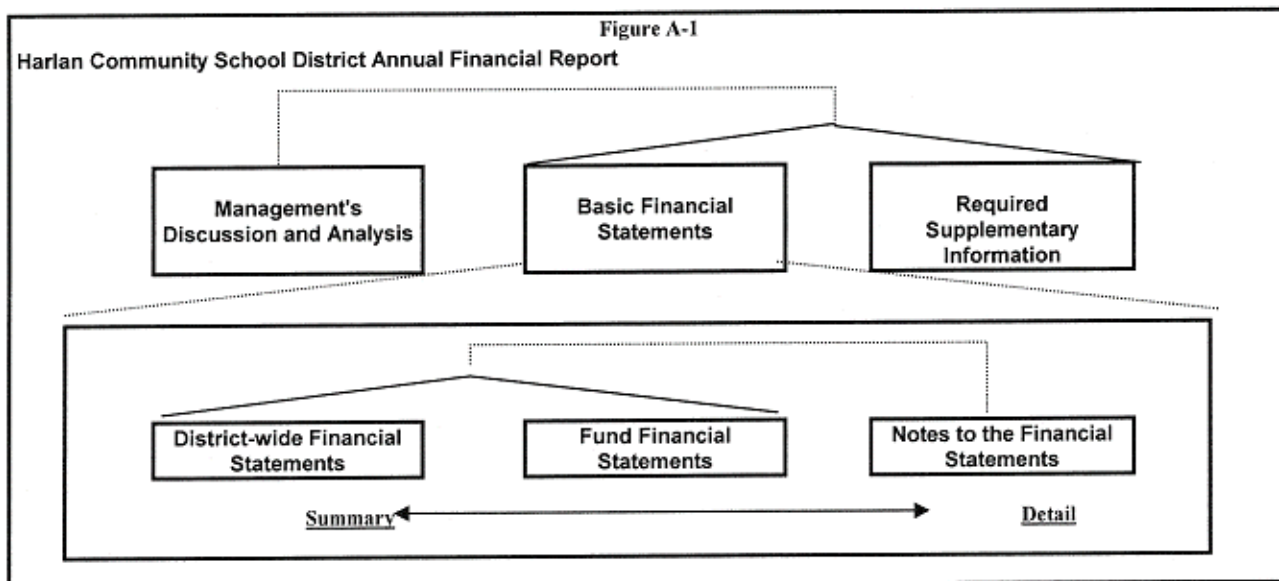


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All additions and reductions during year, regardless of when cash is received or paid

REPORTING OF DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

1. *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance District's programs. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances.

2. *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way the Government-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

3. *Fiduciary funds:* The District is the trustee or fiduciary for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

Government-Wide Financial Analysis

Net position – Figure A-3 below provides a summary of the District's net position at June 30, 2013 compared to June 30, 2012.

Figure A-3 Condensed Statement of Net Position							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-2013
Current and other assets	\$ 21,156,139	\$ 16,081,088	\$ 439,559	\$ 489,816	\$ 21,595,698	\$ 16,570,904	23.4%
Capital assets	18,382,296	19,086,300	97,071	83,039	18,479,367	19,169,339	(3.7%)
Total assets	39,538,435	35,147,388	536,630	572,855	40,075,065	35,720,233	10.9%
Long-term obligations	18,034,452	13,319,795	-0-	-0-	18,034,452	13,319,795	28.1%
Other liabilities	8,284,405	8,214,233	55,877	55,958	8,340,282	8,270,191	0.9%
Total liabilities	26,318,857	21,534,028	55,877	55,958	26,374,734	21,589,986	18.1%
Net assets:							
Net investment in capital assets	5,833,498	6,176,220	97,071	83,039	5,930,569	6,259,259	(5.4%)
Restricted	3,357,590	3,266,545	-0-	-0-	3,657,590	3,266,545	10.4%
Unrestricted	3,728,490	4,170,575	383,682	433,858	4,112,172	4,604,433	(12.0%)
Total net position	\$ 13,219,578	\$ 13,613,340	\$ 480,753	\$ 516,897	\$ 13,700,331	\$ 14,130,237	(3.2%)

The District's total net position decreased by 3.0 percent or \$429,906 from the prior year. The largest portion of the District's net position is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net position increased approximately \$391,045 or 11.9 percent from the prior year. The increase was primarily a result of building the reserves of the District's infrastructure fund and management fund.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased \$492,261 or 12.0 percent. The decrease is the result of expenditures exceeding revenues.

Changes in net position – Figure A-4 shows the changes in net position for the year ended June 30, 2013.

Figure A-4
Changes in Net Position

	Governmental Activities		Business-type Activities		Total School District	
	June 30,		June 30,		June 30,	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services and sales	\$ 1,755,545	\$ 1,796,916	\$ 431,891	\$ 441,564	\$ 2,187,236	\$ 2,238,480
Operating grants, contributions and restricted interest	2,056,893	2,413,418	360,310	322,276	2,427,203	2,735,694
Capital grants, contributions, and restricted interest	19,212	271,924	-0-	-0-	19,212	271,924
General revenues:						
Property tax	5,348,724	6,083,549	-0-	-0-	5,348,724	6,083,549
Local option sales tax	1,208,396	901,401	-0-	-0-	1,208,396	901,401
Unrestricted state grants	8,816,313	7,045,249	-0-	-0-	8,816,313	7,045,249
Unrestricted investment earnings	18,687	18,789	615	678	19,302	19,467
Other	10,502	32,677	-0-	-0-	10,502	32,677
Total revenues	17,242,272	18,563,923	792,816	764,518	18,034,888	19,328,441
Program expenses:						
Governmental activities:						
Instruction	11,028,605	10,616,043	-0-	-0-	11,028,605	10,616,043
Support services	4,599,040	4,570,691	-0-	-0-	4,599,040	4,570,691
Non-instructional programs	-0-	-0-	828,760	729,109	828,760	729,109
Other expenses	2,008,389	2,037,297	-0-	-0-	2,008,389	2,037,297
Total expenses	17,636,034	17,224,031	828,760	729,109	18,464,794	17,953,140
Change in net position	\$ (393,762)	\$ 1,339,892	\$ (38,144)	\$ 35,409	\$ (429,906)	\$ 1,375,301

In fiscal year 2013, property tax and unrestricted state grants account for 70.6 percent of total revenue. The District's expenses primarily relate to instruction and support services which account for 88.6 percent of the total expenses.

Governmental Activities

Revenues for governmental activities were \$17,242,272 for fiscal 2013 and \$18,563,923 for fiscal 2012. Expenses were \$17,636,034 for fiscal 2013 and \$17,224,031 for fiscal 2012. The District expenditures exceeded revenues resulting in a slight decrease in financial position.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs, and other expenses, for the year ended June 30, 2013 compared to the year end June 30, 2012.

Figure A-5 Total and Net Cost of Governmental Activities				
	Total Cost of Services		Net Cost of Services	
	June 30,		June 30,	
	2013	2012	2013	2012
Instruction	\$ 11,028,605	\$ 10,616,043	\$ 7,889,889	\$ 7,018,967
Support services	4,599,040	4,570,691	4,469,095	4,504,847
Other expenses	2,008,389	2,037,297	1,435,400	1,217,959
Totals	\$ 17,636,034	\$ 17,224,031	\$ 13,794,384	\$ 12,741,773

- The cost financed by users of the District's programs was \$1,755,545 for 2013 and \$1,796,916 for 2012.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,086,105 for 2013 and \$2,685,342 for 2012.
- The net cost of governmental activities was financed with the following:

	June 30, 2013	June 30, 2012
Property Taxes	\$ 5,348,724	\$ 6,083,549
Local Option Sales Tax	1,206,396	901,401
State Unrestricted	6,816,313	7,045,249
Interest Income	18,687	18,789
Other Revenue	10,502	32,677

Business-Type Activities

Revenues of the District's business-type activities were \$792,616 for 2013 and \$764,518 for 2012, and expenses were \$828,760 for 2013 and \$729,109 for 2012. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income.

Individual Fund Analysis

As previously noted, the Harlan Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$13,667,807 for 2013 and \$8,605,078 for 2012. The primary reason for the increase in combined fund balances in fiscal 2013 is due to the funds from the advanced refunding of the District's general obligation bonds being held in escrow until the call date of the bonds. The District experienced a slight increase in enrollment during fiscal year 2013 but will have to rely on State Foundation Aid allowable growth increases, new revenue sources, or use fund balance to cover increases in costs.

Governmental Fund Highlights

- The District's decrease in General Fund financial position is the product of many factors. The District saw a decrease in property tax collections.
- The General Fund balance decreased from \$5,123,644 to \$4,687,061 due in part to lower property tax collections and a net overall increase in expenditures over revenues.
- The District's Debt Service Fund saw an increase during fiscal year 2013 due to the funds from the advanced refunding of the District's general obligation bonds being held in escrow until the call date of the bonds.
- The Capital Project Fund balance increased from \$2,772,561 to \$3,055,178 due to an increase in revenues from the state-wide penny sales tax and a decrease in the amounts being expended on Physical Plant and Equipment expenditures. Due to GASB 54 Fund Balance Reporting Requirements, the Physical Plant and Equipment Levy (PPEL) Fund balance is now included in the Capital Project Fund balance.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from \$516,897 at June 30, 2012 to \$480,753 at June 30, 2013, representing an decrease of approximately 7.0%. The District experienced an increase in capital spending and food cost during fiscal year 2013.

Budgetary Highlights

In accordance with the Code of Iowa, The Board of Education annually adopts a budget following required public notice and hearing for all funds, except for internal services, private-purpose trusts and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District' budget is prepared on the accrual basis. The District operated within its certified budget. A schedule showing the original and final budget amounts compared to the District's actual financial activity are included in the required supplementary information section of this report.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2013, the District had invested approximately \$18.48 million, net of accumulated depreciation, in a broad range of capital assets including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year exceeded \$870,149.

The original cost of the District's capital assets was \$28.1 million. Governmental funds account for \$27.8 million with the remainder of \$.3 million in the Proprietary, School Nutrition Fund.

The significant capital assets activities include the roofing, security, and boiler retubing projects, and the purchase of a vehicle.

Figure A-6						
	Governmental Activities		Capital Assets, net of Depreciation		Total School District	
	Business-type Activities		Business-type Activities		Business-type Activities	
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,
	2013	2012	2013	2012	2013	2012
Land	\$ 25,700	\$ 25,700	\$ -0-	\$ -0-	\$ 25,700	\$ 25,700
Improvements other than buildings	232,788	255,736	-0-	-0-	232,788	255,736
Construction in Progress	-0-	-0-	-0-	-0-	-0-	-0-
Buildings	17,413,649	17,881,507	-0-	-0-	17,413,649	17,881,507
Furniture and equipment	710,179	923,357	97,071	83,039	807,250	1,006,396
Totals	\$ 18,382,296	\$ 19,086,300	\$ 97,071	\$ 83,039	\$ 18,479,367	\$ 19,169,339

Long-Term Debt

At June 30, 2013 the District had \$18,632,060 general obligation and other long-term debt outstanding. This represents a increase of approximately 25.5% from last year. The increase is primarily attributable to the District's advanced refunding of their general obligation bonds. The proceeds from the refunding bonds are being held in escrow until the call date of the general obligation bonds and at that time the general obligation debt will be defeased.

(See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

Figure A-7				
	Outstanding Long-Term Obligations			
	2013	2012	2013-2012	
General obligation bonds	\$ 5,836,326	6,603,458	(11.6)	%
Revenue Bonds	7,245,729	7,240,622	0.1	%
General obligation refunding bonds	5,109,743	-0-	N/A	%
Early retirement benefits	370,114	282,707	30.9	%
Compensated absences	70,148	59,422	18.1	%
Totals	\$ 18,632,060	13,885,209	34.2	%

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District administration is taking steps to balance the District's revenues and expenditures and keep the District in a healthy financial position.
- The District has seen a slight increase in enrollment. The District's funding for FY14 will be based on the increased enrollment.
- The District is closely monitoring the uncertainty of state and local finances in light of the national and global financial situation. It is uncertain whether or not there will be additional reductions made to the fiscal year 2014 budget.
- The District's state wide penny sales tax receipts are sufficient enough to pay the current general obligation and revenue bonds. As a result the District will not assess any property tax levy for debt service repayment.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brian Gubbels, Director of Finance, Harlan Community School District, 2102 Durant Street, Harlan, Iowa 51537.

BASIC FINANCIAL STATEMENTS

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Governmental Activities	Business- type Activities	Total
Assets			
Cash, cash equivalents and pooled investments	\$ 14,669,078	397,469	15,066,547
Receivables:			
Property tax:			
Delinquent	71,608	-	71,608
Succeeding year	5,133,399	-	5,133,399
Accounts	33,497	-	33,497
Accrued interest	481	-	481
Due from other governments	1,199,295	23,275	1,222,570
Prepaid expense	48,781	-	48,781
Inventories	-	18,815	18,815
Capital assets, net of accumulated depreciation	18,382,296	97,071	18,479,367
Total assets	<u>39,538,435</u>	<u>536,630</u>	<u>40,075,065</u>
Liabilities			
Accounts payable	206,443	55	206,498
Salaries & benefits payable	1,460,788	41,550	1,502,338
Accrued interest payable	198,465	-	198,465
Deferred revenue			
Succeeding year property tax	5,133,399	-	5,133,399
Succeeding year income surtax	663,183	-	663,183
Other	24,519	14,272	38,791
Long-term liabilities:			
Portion due within one year:			
Bonds payable	490,000	-	490,000
Other post employment benefits	37,460	-	37,460
Compensated absences	70,148	-	70,148
Portion due after one year:			
Bonds payable, net of unamortized discounts and premiums	17,701,798	-	17,701,798
Other post employment benefits	332,654	-	332,654
Total liabilities	<u>26,318,857</u>	<u>55,877</u>	<u>26,374,734</u>
Net Position			
Net investment in capital assets	5,833,498	97,071	5,930,569
Restricted for:			
Categorical funding	518,309	-	518,309
Debt service	991,299	-	991,299
Management levy purposes	762,517	-	762,517
Student activities	146,473	-	146,473
Capital projects	989,853	-	989,853
Physical plant and equipment levy	249,139	-	249,139
Unrestricted	3,728,490	383,682	4,112,172
Total net position	<u>\$ 13,219,578</u>	<u>480,753</u>	<u>13,700,331</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
Instruction:							
Regular instruction	\$ 7,224,457	1,027,272	1,112,523	-	(5,084,662)	-	(5,084,662)
Special instruction	1,981,396	125,681	251,755	-	(1,603,960)	-	(1,603,960)
Other instruction	1,822,752	593,709	27,776	-	(1,201,267)	-	(1,201,267)
	<u>11,028,605</u>	<u>1,746,662</u>	<u>1,392,054</u>	<u>-</u>	<u>(7,889,889)</u>	<u>-</u>	<u>(7,889,889)</u>
Support services:							
Student services	425,942	-	68,185	-	(357,757)	-	(357,757)
Instructional staff services	434,367	-	-	-	(434,367)	-	(434,367)
Administration services	1,618,872	-	-	-	(1,618,872)	-	(1,618,872)
Operation & maint plant	1,273,257	5,891	-	-	(1,267,366)	-	(1,267,366)
Transportation services	846,602	2,992	52,877	-	(790,733)	-	(790,733)
	<u>4,599,040</u>	<u>8,883</u>	<u>121,062</u>	<u>-</u>	<u>(4,469,095)</u>	<u>-</u>	<u>(4,469,095)</u>
Other expenditures:							
Facilities acquisition	106,637	-	-	19,212	(87,425)	-	(87,425)
Long-term debt interest	699,676	-	6,585	-	(693,091)	-	(693,091)
AEA flowthrough	547,192	-	547,192	-	-	-	-
Depreciation (unallocated)*	654,884	-	-	-	(654,884)	-	(654,884)
	<u>2,008,389</u>	<u>-</u>	<u>553,777</u>	<u>19,212</u>	<u>(1,435,400)</u>	<u>-</u>	<u>(1,435,400)</u>
Total governmental activities	17,636,034	1,755,545	2,066,893	19,212	(13,794,384)	-	(13,794,384)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	828,760	431,691	360,310	-	-	(36,759)	(36,759)
Total	<u>\$ 18,464,794</u>	<u>2,187,236</u>	<u>2,427,203</u>	<u>19,212</u>	<u>(13,794,384)</u>	<u>(36,759)</u>	<u>(13,831,143)</u>
General Revenues:							
Property and other tax levied for:							
General purposes					\$ 4,900,706	-	4,900,706
Capital outlay					448,018	-	448,018
Statewide sales, services and use tax					1,206,396	-	1,206,396
Unrestricted state grants					6,816,313	-	6,816,313
Unrestricted investment earnings					18,687	615	19,302
Other					10,502	-	10,502
Total general revenues					<u>13,400,622</u>	<u>615</u>	<u>13,401,237</u>
Change in net position					(393,762)	(36,144)	(429,906)
Net position beginning of year					13,613,340	516,897	14,130,237
Net position end of year					<u>\$ 13,219,578</u>	<u>480,753</u>	<u>13,700,331</u>

* This amount excludes the depreciation that is included in the direct expense of the various programs

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
GOVERNMENTAL FUND BALANCE SHEET
YEAR ENDED JUNE 30, 2013**

	General	Capital Projects	Debt Service	Nonmajor Governmental	Total
Assets					
Assets:					
Cash, cash equivalents and pooled investments	\$ 6,011,519	2,760,384	5,016,578	880,597	14,669,078
Receivables					
Property tax:					
Delinquent	59,357	5,770	-	6,481	71,608
Succeeding year	4,281,643	459,655	-	392,101	5,133,399
Accounts	200	1,685	-	31,612	33,497
Accrued interest	481	-	-	-	481
Due from other governments	909,287	290,008	-	-	1,199,295
Prepaid expenses	40,810	-	-	7,971	48,781
Total assets	<u>\$ 11,303,297</u>	<u>3,517,502</u>	<u>5,016,578</u>	<u>1,318,762</u>	<u>21,156,139</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 188,749	2,669	-	15,025	206,443
Salaries & benefits payable	1,458,142	-	-	2,646	1,460,788
Deferred revenue					
Succeeding year property tax	4,281,643	459,655	-	392,101	5,133,399
Succeeding year income surtax	663,183	-	-	-	663,183
Other	24,519	-	-	-	24,519
Total liabilities	<u>6,616,236</u>	<u>462,324</u>	<u>-</u>	<u>409,772</u>	<u>7,488,332</u>
Fund balances:					
Nonspendable - prepaids	40,810	-	-	7,971	48,781
Restricted for:					
Categorical funding	518,309	-	-	-	518,309
Donated purposes	68,483	-	-	-	68,483
Debt service	-	1,816,186	5,016,578	-	6,832,764
Capital projects	-	989,853	-	-	989,853
Physical plant and equipment	-	249,139	-	-	249,139
Management levy purposes	-	-	-	754,546	754,546
Student activities	-	-	-	146,473	146,473
Unassigned	4,059,459	-	-	-	4,059,459
Total fund balances	<u>4,687,061</u>	<u>3,055,178</u>	<u>5,016,578</u>	<u>908,990</u>	<u>13,667,807</u>
Total liabilities and fund balances	<u>\$ 11,303,297</u>	<u>3,517,502</u>	<u>5,016,578</u>	<u>1,318,762</u>	<u>21,156,139</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2013**

Total fund balances of governmental funds	\$ 13,667,807
<i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	18,382,296
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(198,465)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities of the governmental funds.	<u>(18,632,060)</u>
Net position of governmental activities	\$ <u>13,219,578</u>

HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General	Capital Projects	Debt Service	Nonmajor Governmental	Total
Revenues:					
Local sources:					
Local Tax	\$ 5,081,426	1,654,414	-	482,398	7,218,238
Tuition	993,423	-	-	-	993,423
Other	231,996	19,212	6,585	601,201	858,994
State sources	7,789,107	243	-	267	7,789,617
Federal sources	382,000	-	-	-	382,000
Total revenues	14,477,952	1,673,869	6,585	1,083,866	17,242,272
Expenditures:					
Current					
Instruction:					
Regular instruction	7,010,926	67,528	-	41,360	7,119,814
Special instruction	1,973,450	-	-	-	1,973,450
Other instruction	1,206,019	-	-	608,488	1,814,507
	10,190,395	67,528	-	649,848	10,907,771
Support services:					
Student services	424,509	-	-	-	424,509
Instructional staff services	436,804	-	-	-	436,804
Administration services	1,441,067	-	2,000	167,185	1,610,252
Operation and maintenance of plant services	1,173,651	4,293	-	45,021	1,222,965
Transportation services	700,917	58,251	-	19,393	778,561
	4,176,948	62,544	2,000	231,599	4,473,091
Other expenditures:					
Facilities acquisition	-	206,167	-	-	206,167
Long-term debt:					
Principal	-	-	470,000	-	470,000
Interest and fiscal charges	-	-	685,065	-	685,065
AEA flowthrough	547,192	-	-	-	547,192
	547,192	206,167	1,155,065	-	1,908,424
Total expenditures	14,914,535	336,239	1,157,065	881,447	17,289,286
Excess(deficiency) of revenues over (under) expenditures	(436,583)	1,337,630	(1,150,480)	202,419	(47,014)
Other financing sources (uses):					
Sale of refunding bonds net of premium	-	-	5,109,743	-	5,109,743
Operating transfers in	-	-	1,055,013	-	1,055,013
Operating transfers out	-	(1,055,013)	-	-	(1,055,013)
Total other financing sources(uses)	-	(1,055,013)	6,164,756	-	5,109,743
Net change in fund balances	(436,583)	282,617	5,014,276	202,419	5,062,729
Fund balances beginning of year	5,123,644	2,772,561	2,302	706,571	8,605,078
Fund balances end of year	\$ 4,687,061	3,055,178	5,016,578	908,990	13,667,807

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

Net change in fund balances - total governmental funds **\$ 5,062,729**

*Amounts reported for governmental activities in the
Statement of Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays depreciation expense and adjustments for disposals in the year are as follows:

Expenditures for capital assets	\$ 147,826	
Depreciation expense	<u>(851,830)</u>	(704,004)

Issuance of long-term debt principal is an other financing source in the governmental funds, but it increases long-term liabilities in the Statement of Net Position.	(5,109,743)
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Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position	470,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(14,611)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds

Other post employment benefits	(87,407)	
Compensated absences	<u>(10,726)</u>	<u>(98,133)</u>

Change in net position of governmental activities	\$ <u>(393,762)</u>
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See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013**

	<u>School Nutrition</u>
Assets	
Current assets:	
Cash, cash equivalents and pooled investments	\$ 397,469
Due from other governments	23,275
Inventories	<u>18,815</u>
Total current assets	439,559
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>97,071</u>
Total assets	536,630
Liabilities	
Current liabilities:	
Accounts payable	55
Salaries and benefits and payable	41,550
Deferred revenue	<u>14,272</u>
Total liabilities	<u>55,877</u>
Net Position	
Investment in capital assets	97,071
Unrestricted	<u>383,682</u>
Total net position	<u>\$ 480,753</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013**

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for service	\$ 431,691
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	267,769
Benefits	41,976
Purchased services	1,569
Supplies	497,627
Miscellaneous	1,500
Depreciation	18,319
Total operating expenses	<u>828,760</u>
Operating loss	(397,069)
Non-operating revenue:	
State sources	7,611
Federal sources	352,699
Interest on investments	615
Total non-operating revenue	<u>360,925</u>
Change in net position	(36,144)
Net position beginning of year	<u>516,897</u>
Net position end of year	<u>\$ 480,753</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013**

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 433,674
Cash payments to employees for services	(311,811)
Cash payments to suppliers for goods or services	(456,872)
Net cash used by operating activities	(335,009)
Cash flows from non-capital financing activities:	
State grants received	7,611
Federal grants received	283,654
Net cash provided by non-capital financing sources	291,265
Cash flows from capital and related financing activities:	
Proceeds from sale of equipment	-
Acquisition of capital assets	(32,351)
Net cash used by capital and related financing activities	(32,351)
Cash flows from investing activities:	
Interest on investments	615
Net increase in cash and cash equivalents	(75,480)
Cash and cash equivalents at beginning of year	472,949
Cash and cash equivalents at end of year	\$ <u>397,469</u>

Reconciliation of operating loss to net cash used by operating activities:

Operating loss	\$ (397,069)
Commodities used	45,770
Depreciation	18,319
Increase in inventories	(1,948)
Increase in payables	2
(Decrease) in salaries and benefits payable	(2,066)
Increase in deferred revenue	1,983
Net cash used by operating activities	\$ <u>(335,009)</u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2013 the District received \$45,770 of federal commodities

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2013**

	Private Purpose Trust <u>Scholarship</u>	<u>Agency</u>
Assets		
Cash, cash equivalents and pooled investments	\$ 39,168	5,662
Total assets	<u>39,168</u>	<u>5,662</u>
Liabilities		
Due to other governments	<u>-</u>	<u>5,662</u>
Total liabilities	<u>-</u>	<u>5,662</u>
Net Position		
Reserved for scholarships	<u>\$ 39,168</u>	<u>-</u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2013**

	Private Purpose Trust <u>Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 7,154
Interest income	566
Transfers from other funds	
Total additions	<u>7,720</u>
Deductions:	
Instruction:	
Regular	
Scholarships awarded	<u>7,000</u>
Change in net position	720
Net position beginning of year	<u>38,448</u>
Net position end of year	<u><u>\$ 39,168</u></u>

See notes to financial statements

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 1 Summary of Significant Accounting Policies

The Harlan Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Harlan, Iowa and the predominate agricultural territory in Harrison and Shelby Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Harlan Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Harlan Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in jointly governed organizations that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Harrison and Shelby Counties Assessor's Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the District's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net position results when constraints placed on net position use is either externally imposed or imposed by law through constitutional provisions or enabling legislation.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 1 Summary of Significant Accounting Policies (continued)

B. Basis of Presentation – (continued)

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's long term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and all other capital assets.

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net position and changes in net position. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 1 Summary of Significant Accounting Policies (continued)

B. Basis of Presentation - (continued)

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 1 Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting - (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2012.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity - (continued)

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	1,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 1 Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity - (continued)

Deferred Revenue – (continued)

Deferred revenue on the Statement of Net Position consists of succeeding year property tax receivable and succeeding year income surtax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts not in spendable form, such as inventories and prepaid expenses.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resource are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 2 Cash and Pooled Investments

The District's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance, or by the State Sinking Fund, in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2013, the District had investments in the Iowa Schools Joint Investment Trust as follows:

Type	Amortized Cost
Diversified Portfolio	\$ <u>932</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk

The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk

The investment in the Iowa Schools Joint Investment was rated AAA by Moody's Investors Service.

NOTE 3 Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ <u>1,055,013</u>

Transfers generally move revenues from the fund statutorily required to collect the resources, to the fund statutorily required to expend the resources.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 4 Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 25,700	-	-	25,700
Capital assets being depreciated:				
Buildings	22,964,252	71,049	-	23,035,301
Improvements other than buildings	680,639	-	-	680,639
Furniture and equipment	3,947,053	76,777	-	4,023,830
Total capital assets being depreciated	27,591,944	147,826	-	27,739,770
Less accumulated depreciation for:				
Buildings	5,082,745	538,907	-	5,621,652
Improvements other than buildings	424,903	22,968	-	447,871
Furniture and equipment	3,023,696	289,955	-	3,313,651
Total accumulated depreciation	8,531,344	851,830	-	9,383,174
Total capital assets being depreciated, net	19,060,600	(704,004)	-	18,356,596
Governmental activities capital assets, net	\$ 19,086,300	(704,004)	-	18,382,296
Business-type activities				
Furniture and equipment	\$ 257,338	32,351	-	289,689
Less accumulated depreciation	174,299	18,319	-	192,618
Business-type activities capital assets, net	\$ 83,039	14,032	-	97,071

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 46,372
Other	7,210
Support services:	
Student services	1,433
Instructional staff	
Operation and maintenance of plant	39,317
Transportation	101,417
	195,749
Unallocated	654,884
Total depreciation expense - governmental activities	\$ 850,633
Business-type activities:	
Food services	\$ 18,319

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 5 Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2013 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 6,345,000	-	470,000	5,875,000	490,000
Unamortized discount	(42,542)	3,868	-	(38,674)	-
General obligation refunding bonds	-	5,010,000	-	5,010,000	-
Unamortized premium	-	99,743	-	99,743	-
Sales tax bonds	6,330,000	-	-	6,330,000	-
Unamortized discount	(89,378)	5,107	-	(84,271)	-
Quality Zond Academy bonds	1,000,000	-	-	1,000,000	-
OPEB	282,707	123,399	35,992	370,114	37,460
Compensated absences	59,422	70,148	59,422	70,148	70,148
Total	\$ 13,885,209	5,312,265	565,414	18,632,060	597,608

General Obligation Bonds

Details of the District's June 30, 2013 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of February 1, 2008			
	Interest Rates	Principal	Interest	Discount Amortization
2014	3.50%	\$ 490,000	220,378	3,868
2015	3.50%	5,385,000	203,228	34,806
		\$ 5,875,000	423,606	38,674

Year Ending June 30,	Bond Issue of December 11, 2012			
	Interest Rates	Principal	Interest	Premium Amortization
2014	-	\$ -	82,432	9,974
2015	-	-	82,432	9,974
2016	2.00%	630,000	82,432	9,974
2017	2.00%	645,000	69,833	9,974
2018	2.00%	660,000	56,933	9,974
2019-2023	1.1-1.70%	3,075,000	129,091	49,873
		\$ 5,010,000	503,153	99,743

In December 2012, the district issued \$5,010,000 in refunding general obligation bonds. The bond proceeds were placed in escrow to call the balance due on the February 2008 issue on June 1, 2015. The difference between debt service payments results in a cash flow savings of \$447,188.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 5 Long-Term Liabilities (continued)

Sales Tax Bond

Details of the District's June 30, 2013 statewide sales, service & use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 1, 2009			
	Interest Rates	Principal	Interest	Discount Amortization
2014	-	\$ -	346,185	5,107
2015	-	-	346,185	5,107
2016	5.00%	85,000	344,060	5,107
2017	5.00%	90,000	339,685	5,107
2018	5.00%	95,000	335,060	5,107
2019-2023	5.00-5.25%	550,000	1,596,853	25,535
2024-2028	5.30-5.625%	3,055,000	1,186,902	25,535
2029-2030	5.625%	2,455,000	181,548	7,666
		<u>\$ 6,330,000</u>	<u>4,676,478</u>	<u>84,271</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$6,330,000 bonds issued in May 2009. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 100 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the note is \$11,006,478. For the current year, interest paid on the bonds and total statewide sales, services and use tax revenue were \$346,185 and \$898,278, respectively.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$633,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The accrued interest on the revenue bond proceeds shall be placed into a sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District has complied with the above provisions.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 5 Long-Term Liabilities (continued)

Qualified Zone Academy Bond

During the year ended June 30, 2002, the District issued zero interest Qualified Zone Academy Bonds (QZAB). Annual transfers of \$58,455 are made to an escrow agent to pay the indebtedness due November 11, 2015, of \$1,000,000. Bond proceeds are to be used only for the equipping, rehabilitation and repairs of the school designated as the "Qualified Zone Academy." The school is in compliance with the above provisions.

NOTE 6 Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.78% of their annual salary and the District is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011, were \$815,421, \$730,241, and \$639,303, respectively, equal to the required contributions for each year.

NOTE 7 Termination Benefits

In October 2012, the District approved a voluntary early retirement plan for employees. The plan was offered for one year. Eligible employees must have completed at least 10 years of full time service to the District, must have reached the age of fifty-five by June 30, 2012, and be first year eligible for IPERS benefits. The retirement benefit equaled a one-time payment of \$20,000 to a deferred plan on behalf of each electing employee. Two employees were granted the benefit. Early retirement expenditures for the year ended June 30, 2013 totaled \$40,000, with no liability outstanding.

NOTE 8 Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 9 Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. The District pays for all or a portion of active employees' coverage. Retired members can continue their coverage at their own expense and also receive an explicit subsidy of \$83 per month staying within plan coverage and \$168 per month if they elect to discontinue coverage within the district plan. There are 113 active and 19 retired members in the plan, and 4 retirees elected coverage outside the plan. Participants must be age 55 or older at retirement.

The medical and prescription drug coverage is provided through a fully-insured plan with Wellmark. The same premium is paid for retirees under age 65 for the medical and prescription drug benefit as active employees, which results in an implicit subsidy. The OPEB liability includes both the explicit and the implicit subsidies.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 132,986
Interest on net OPEB obligation	7,068
Adjustment to annual required contribution	<u>(15,295)</u>
Annual OPEB cost	124,759
Contributions made	<u>(37,352)</u>
Increase in net OPEB obligation	87,407
Net OPEB obligation, beginning of year	<u>282,707</u>
Net OPEB obligation, end of year	<u>\$ 370,114</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the District made an explicit contribution of \$22,360 and an implicit contribution of \$14,992 to the medical plan. Plan members eligible for benefits contributed \$71,740, or 80% of the premium costs.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 9 Other Postemployment Benefits (OPEB) – Continued

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2013 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 100,757	36.7 %	\$ 126,492
2011	101,287	31.5 %	195,820
2012	125,784	30.9 %	282,707
2013	124,759	29.9 %	370,114

Funding Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$854,535, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$854,535. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$9,185,000, and the ratio of the UAAL to covered payroll was 9.3%. As of June 30, 2013, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2011 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

The most recent aging curve study was presented by the Society of Actuaries in February 2006. This study provided the basis for the "aging cost assumption" used in the valuation.

Projected claim costs of the medical plan are \$435 per month for retirees. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013**

NOTE 10 Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$547,192 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

NOTE 11 Lease Agreements

The District has signed operating lease agreements for the rental of computer equipment. Rent expense for the year ended June 30, 2013 totaled \$213,930. Future required minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 261,927
2015	261,927
2016	261,927
2017	<u>44,627</u>
	<u>\$ 830,408</u>

NOTE 12 Categorical Funding

The District ending balances for categorical funding by project as of the year ended June 30, 2013 are as follows:

<u>Project</u>	<u>Amount</u>
Limited English proficiency	\$ 42,240
Home school assistance	150,653
At-risk formula supplementary weighting	125,517
Gifted and talented	154,511
Teachers compensation	4,651
Beginning administrator mentoring	2,102
Textbook aid - non public students	413
Teacher quality professional development	<u>38,222</u>
	<u>\$ 518,309</u>

REQUIRED SUPPLEMENTARY INFORMATION

**HARLAN COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN BALANCES – BUDGET AND ACTUAL –
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013**

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
Revenues:						
Local sources	\$ 8,762,537	432,306	9,194,843	9,088,250	9,088,250	106,593
State sources	8,097,735	7,611	8,105,346	8,002,935	8,002,935	102,411
Federal sources	382,000	352,699	734,699	632,000	632,000	102,699
Total receipts	<u>17,242,272</u>	<u>792,616</u>	<u>18,034,888</u>	<u>17,723,185</u>	<u>17,723,185</u>	<u>311,703</u>
Expenditures:						
Instruction	10,907,771	-	10,907,771	11,145,000	11,345,000	437,229
Support services	4,473,091	-	4,473,091	5,171,200	4,971,200	498,109
Non-instructional programs	-	828,760	828,760	660,000	860,000	31,240
Other expenditures	1,908,424	-	1,908,424	2,309,918	2,309,918	401,494
Total disbursements	<u>17,289,286</u>	<u>828,760</u>	<u>18,118,046</u>	<u>19,286,118</u>	<u>19,486,118</u>	<u>1,368,072</u>
Excess (deficiency) of revenue over (under) expenditures	(47,014)	(36,144)	(83,158)	(1,562,933)	(1,762,933)	1,679,775
Other financing sources, net	<u>5,109,743</u>	<u>-</u>	<u>5,109,743</u>	<u>5,000</u>	<u>5,000</u>	<u>5,104,743</u>
Excess(deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	5,062,729	(36,144)	5,026,585	(1,557,933)	(1,757,933)	6,784,518
Balances beginning of year	<u>8,605,078</u>	<u>516,897</u>	<u>9,121,975</u>	<u>8,566,886</u>	<u>8,566,886</u>	<u>555,089</u>
Balances end of year	<u>\$ 13,667,807</u>	<u>480,753</u>	<u>14,148,560</u>	<u>7,008,953</u>	<u>6,808,953</u>	<u>7,339,607</u>

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2013**

This budgetary comparison is presented as Required Supplementary Information in accordance with *Governmental Accounting Standards Board* Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$200,000.

During the year ended June 30, 2013, expenditures did not exceed the amounts budgeted and the District did not exceed its General Fund unspent authorized budget.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN (In Thousands)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013**

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	07/01/08	\$ -	\$ 903	\$ 903	0.0%	\$ 9,736	9.23%
2011	07/01/08	-	675	675	0.0%	8,890	7.59%
2012	07/01/11	-	890	890	0.0%	8,736	10.19%
2013	07/01/11	-	854	854	0.0%	9,185	9.3%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

See Accompanying Independent Auditors' Report

SUPPLEMENTARY INFORMATION

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013**

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
Assets			
Assets:			
Cash, cash equivalents and pooled investments	\$ 749,985	130,612	880,597
Receivables			
Property tax:			
Delinquent	6,481	-	6,481
Succeeding year	392,101	-	392,101
Accounts	-	31,612	31,612
Prepaid expenses	7,971	-	7,971
Total assets	\$ 1,156,538	162,224	1,318,762
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 1,920	13,105	15,025
Salaries and benefits payable	-	2,646	2,646
Deferred revenue:			
Succeeding year property tax	392,101	-	392,101
Total liabilities	394,021	15,751	409,772
Fund balances:			
Nonspendable:			
Prepays	7,971	-	7,971
Restricted for:			
Management levy purposes	754,546	-	754,546
Student activities	-	146,473	146,473
Total fund balances	762,517	146,473	908,990
Total liabilities and fund balances	\$ 1,156,538	162,224	1,318,762

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013**

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
Revenues:			
Local sources:			
Local Tax	\$ 482,398	-	482,398
Other	7,173	594,028	601,201
State sources	267	-	267
Total revenues	<u>489,838</u>	<u>594,028</u>	<u>1,083,866</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	41,360	-	41,360
Other instruction	-	608,488	608,488
	<u>41,360</u>	<u>608,488</u>	<u>649,848</u>
Support services:			
Administration services	167,185	-	167,185
Operation and maintenance of plant services	45,021	-	45,021
Transportation services	19,393	-	19,393
	<u>231,599</u>	<u>-</u>	<u>231,599</u>
Total expenditures	<u>272,959</u>	<u>608,488</u>	<u>881,447</u>
Net change in fund balances	216,879	(14,460)	202,419
Fund balances beginning of year	<u>545,638</u>	<u>160,933</u>	<u>706,571</u>
Fund balances end of year	<u>\$ 762,517</u>	<u>146,473</u>	<u>908,990</u>

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
CAPITAL PROJECT ACCOUNTS
YEAR ENDED JUNE 30, 2013**

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Assets:			
Cash, cash equivalents and pooled investments	\$ 1,515,338	1,245,046	2,760,384
Receivables:			
Property tax:			
Delinquent	-	5,770	5,770
Succeeding year	-	459,655	459,655
Accrued interest	693	992	1,685
Due from other governments	290,008	-	290,008
Total assets	\$ 1,806,039	1,711,463	3,517,502
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	2,669	2,669
Deferred revenue:			
Succeeding year property tax	-	459,655	459,655
Total liabilities	-	462,324	462,324
Fund balances:			
Restricted for:			
Debt service	816,186	1,000,000	1,816,186
School infrastructure	989,853	-	989,853
Physical plant and equipment	-	249,139	249,139
Total fund balances	1,806,039	1,249,139	3,055,178
Total liabilities and fund balances	\$ 1,806,039	1,711,463	3,517,502

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES – CAPITAL PROJECT ACCOUNTS
YEAR ENDED JUNE 30, 2013**

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local Tax	\$ 1,206,396	448,018	1,654,414
Other	8,902	10,310	19,212
State sources		243	243
Total revenues	1,215,298	458,571	1,673,869
Expenditures:			
Current:			
Instruction:			
Regular instruction	-	67,528	67,528
Support services:			
Operation and maintenance of plant services	-	4,293	4,293
Transportation services	-	58,251	58,251
	-	62,544	62,544
Other expenditures:			
Facilities acquisition		206,167	206,167
Total expenditures	-	336,239	336,239
Excess of revenues over expenditures	1,215,298	122,332	1,337,630
Other financing (uses):			
Operating transfers out	(1,055,013)	-	(1,055,013)
Total other financing (uses)	(1,055,013)	-	(1,055,013)
Net change in fund balances	160,285	122,332	282,617
Fund balances beginning of year	1,645,754	1,126,807	2,772,561
Fund balances end of year	\$ 1,806,039	1,249,139	3,055,178

See Accompanying Independent Auditors' Report

HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND - STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2013

	Balance Beginning of Year	Revenues	Expend- itures	Balance End of Year
Drama	\$ 1,350	979	203	2,126
HS vocal music	-	3,326	2,580	746
MS vocal music	1,505	3	155	1,353
HS instr music	-	4,249	4,249	-
HS jazz	-	1,300	1,300	-
MS jazz	218	-	218	-
MS flag corp	49	-	-	49
HS flag corp	533	1,575	379	1,729
Athletics	2,982	210,745	202,655	11,072
Activity tickets	-	16,338	16,338	-
Splash splash auto detailing	1,487	1,599	1,083	2,003
FB holocaust memorial rock project	975	2	-	977
Cheerleaders	3,664	4,872	6,482	2,054
FFA	26,668	91,020	98,485	19,203
Harpoon	27,590	8,932	8,613	27,909
Entrepreneurial vending	740	6,161	6,901	-
National honor society	349	2,852	3,122	79
BPA	-	24,635	24,635	-
Science club	5	-	-	5
Spanish club	2,334	5	34	2,305
Student council	-	15,782	15,198	584
Pom pom	1,523	3,188	3,388	1,323
Destination imagination	1,129	754	200	1,683
Key Club	3,509	2,307	1,805	4,011
For the birds	475	957	1,033	399
Speech	-	440	440	-
FCCLA Club	2,200	3,789	3,441	2,548
Friends of Rachele	1,708	4	-	1,712
Class of 2010	105	-	-	105
Class of 2011	3,495	-	-	3,495
Class of 2012	2,036	-	-	2,036
Class of 2013	1,050	-	-	1,050
Prom	884	16,982	17,851	15
HS miscellaneous	740	2,033	2,624	149
Hosa fund	6,232	39,921	41,899	4,254
Jel fund	908	-	908	-
Cyclone corner store	3,391	58,649	56,054	5,986
Concessions	5,807	26,972	25,445	7,334
Vending	7,815	8,220	4,103	11,932
MS cheerleading	2,994	1,085	551	3,528
MS vending	3,052	282	128	3,206
MS student council	15,792	26,133	41,925	-
MS yearbook	4,920	3,387	2,833	5,474
MS drama	485	1	-	486
MS building improvements	750	1	-	751
MS builders club	311	16	47	280
MS student fund	7,575	1,508	5,149	3,934
New Park student fund	7,688	2,025	6,034	3,679
West Ridge student fund	3,311	997	-	4,308
West Ridge student store	599	2	-	601
Total	\$ 160,933	594,028	608,488	146,473

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2013**

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 5,771	621	730	5,662
Total assets	<u>\$ 5,771</u>	<u>621</u>	<u>730</u>	<u>5,662</u>
Liabilities				
Due to other governments	\$ 5,771	621	730	5,662
Total liabilities	<u>\$ 5,771</u>	<u>621</u>	<u>730</u>	<u>5,662</u>

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURE BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST NINE YEARS**

	Modified Accrual Basis								
	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:									
Local sources:									
Local Tax	\$ 7,218,238	7,636,847	7,512,198	6,342,488	5,837,085	5,715,871	4,475,863	5,143,601	4,779,429
Tuition	993,423	1,077,900	1,044,614	990,705	921,478	875,705	1,163,555	1,018,745	749,905
Other	858,994	965,743	853,217	948,330	1,089,363	1,101,418	2,003,624	1,125,999	901,406
State sources	7,789,617	8,330,873	7,794,654	6,996,289	8,203,024	7,994,997	7,621,498	7,045,015	6,597,218
Federal sources	382,000	545,439	736,524	1,290,479	434,184	410,350	464,915	567,328	645,349
Total	\$ 17,242,272	18,556,802	17,941,207	16,568,291	16,485,134	16,098,341	15,729,455	14,900,688	13,673,307
Expenditures:									
Instruction:									
Regular instruction	\$ 7,119,814	6,458,017	6,561,370	7,223,885	6,921,935	6,640,200	6,094,933	5,697,085	5,467,395
Special instruction	1,973,450	2,302,080	2,025,680	1,816,504	2,073,664	1,955,078	2,305,201	2,055,594	1,490,215
Other instruction	1,814,507	1,731,674	1,701,138	1,919,532	1,642,187	1,562,230	1,429,800	1,404,287	1,561,313
Support services:									
Student services	424,509	432,328	375,374	654,989	652,071	544,349	432,183	490,975	519,832
Instructional staff services	436,804	666,983	371,410	372,660	393,717	401,968	420,718	353,555	316,907
Administration services	1,610,252	1,426,148	1,495,949	1,551,890	1,423,483	1,344,138	1,253,482	1,244,337	1,053,037
Operation and maintenance of plant services	1,222,965	1,313,770	1,196,590	1,115,072	1,131,622	1,139,891	1,080,158	1,048,294	1,328,061
Transportation services	778,561	847,034	726,086	799,634	803,370	697,317	800,819	689,655	526,169
Other support services	-	-	3,997	-	-	969	-	-	-
Non-instructional programs	-	-	-	-	-	-	-	-	44
Other expenditures:									
Facilities acquisition	206,167	835,401	1,584,854	4,952,994	7,058,375	662,735	269,496	375,293	-
Long-term debt:									
Principal	470,000	450,000	435,000	420,000	545,000	714,900	699,909	669,659	653,396
Interest and fiscal charges	685,065	601,190	613,336	511,790	413,796	47,680	43,324	70,377	119,264
AEA flowthrough	547,192	547,409	613,093	615,639	560,644	519,167	498,288	458,259	449,820
Total	\$ 17,289,266	17,612,034	17,703,877	21,954,589	23,619,864	16,230,622	15,328,311	14,557,370	13,485,453

See Accompanying Independent Auditors' Report

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

<u>Grantor/Program:</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expen- ditures</u>
Indirect:			
US Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 13	\$ 46,034
National School Lunch Program	10.555	FY 13	<u>306,665 *</u>
			352,699
US Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY 13	161,109
Our Kids	84.215	FY 13	1,910
Title IIA - Teacher Quality Program	84.367	FY 13	50,834
Title IVA - Grants for State Assessments	84.369	FY 13	10,118
Green Hills Area Education Agency			
Individuals with Disabilities Education Act (IDEA)			
Special Education Cluster:			
Special Education - Grants to State	84.027	FY 13	78,620
Iowa Western Community College			
Vocational Education - Basic Grants to States	84.048	FY 13	<u>11,224</u>
Total			<u>\$ 666,514</u>

* Includes \$45,770 of non cash awards.

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Harlan Community School District. The financial statements of the School District are presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See Accompanying Independent Auditors' Report

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**



Diane McGrain, CPA
Jim Menard, CPA

December 5, 2013

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit Performed
in Accordance with Government Auditing Standards**

The Board of Education of
Harlan Community School District
Harlan, IA 51537

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund balance information of the Harlan Community School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 5, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harlan Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harlan Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Harlan Community School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Continued. . .

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harlan Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Harlan Community School District's Responses to Findings

Harlan Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Harlan Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Harlan Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schaefer & Associates, P.C.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**



Diane McGrain, CPA
Jim Menard, CPA

December 5, 2013

**Independent Auditors' Report on Compliance With Requirements
Applicable to Each Major Program and Internal Control Over Compliance
In Accordance With OMB Circular A-133**

To Board of Education of
Harlan Community School District
Harlan, IA 51537

Report on Compliance for Each Major Federal Program

We have audited Harlan Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Harlan Community School District's major federal programs for the year ended June 30, 2013. Harlan Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Harlan Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harlan Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Harlan Community School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Harlan Community School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Continued...

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Report on Internal Control Over Compliance

The management of Harlan Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harlan Community School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harlan Community School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Harlan Community School District as of and for the year ended June 30, 2013, and have issued our report dated December 5, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Schroer & Associates, P.C.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) No significant deficiencies or material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No significant deficiencies or material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
 - Individual program
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Harlan Community School District did not qualify as a low-risk auditee.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No significant deficiencies or material weaknesses were noted.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

No significant deficiencies or material weaknesses in internal control over the major programs were noted.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

Part IV: Other Findings Related to Statutory Reporting:

IV-A-13 Certified Budget

Expenditures for the year ended June 30, 2013 did not exceed the amended certified budget amounts.

IV-B-13 Questionable Expenditures

No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-13 Travel Expense

No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-13 Business Transactions

Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Kathy Chamberlain and Joan Chamberlain, employees, own shares in Chamberlain Brothers Lumber	Building repairs and maintenance supplies	\$ 12,755
Mike Bierl, employee, owner of Same Printing	T-shirts	\$ 943
Sandy Meyer, employee, owner of Drivers Education and Safety Training LLC	Purchased services	\$ 29,250

In accordance with Iowa State Code 279.7A, the above transactions are not with board members and do not appear to represent a conflict of interest.

IV-E-13 Bond Coverage

Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013**

Part IV: Other Findings Related to Statutory Reporting (continued):

IV-F-13 Board Minutes

Comment – No transactions were found that we believe should have been approved by the Board minutes, but were not. However, we noted the minutes of one meeting were not furnished to be published within 15 days, in accordance with Chapter 279.35 of the Code of Iowa.

Recommendation – The board secretary should furnish the minutes of each meeting for publication on a timely matter.

Response – This was an isolated instance. We are currently publishing all minutes timely.

Conclusion – Response accepted.

IV-G-13 Certified Enrollment

Comment – We noted a variance in the basic enrollment data certified to the Department of Education. The number of students reported on Line 1 as resident students was understated by .90 students.

Recommendation – The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response – The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion – Response accepted.

IV-H-13 Supplemental Weighting

No variances regarding the supplemental weighting certified to the Department of Education were noted.

IV-I-13 Deposits and Investments

No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the District's investment policy were noted.

IV-J-13 Certified Annual Report

The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-K-13 Categorical Funding

No instances were noted of categorical funding used to supplant rather than supplement other funds.

**HARLAN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013**

Part IV: Other Findings Related to Statutory Reporting (continued):

IV-L-13 Statewide Sales and Services Tax

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2013, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance	\$ 1,645,754
Revenues/transfers in:	
Sales tax revenues	1,206,396
Other local revenues	8,902
	<u>1,215,298</u>
	2,861,052
Expenditures/transfers out:	
Transfers to debt service fund	<u>1,055,013</u>
Ending balance	\$ <u>1,806,039</u>

For the year ended June 30, 2013, the District reduced the following levy as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 2.36	\$ 1,055,013

IV-M-13 Revenue Bonds

The District is in compliance with the provisions of the revenue bond resolution.